



**Press Release**  
**Seutic Labs Private Limited**  
**September 18, 2023**  
**Rating Upgraded**

| Product                                       | Quantum<br>(Rs. Cr) | Long Term Rating                  | Short Term Rating        |
|---|---------------------|-----------------------------------|--------------------------|
| Bank Loan Ratings                             | 29.98               | ACUITE BB-   Stable  <br>Upgraded | -                        |
| Bank Loan Ratings                             | 0.02                | -                                 | ACUITE A4+  <br>Upgraded |
| <b>Total Outstanding<br/>Quantum (Rs. Cr)</b> | 30.00               | -                                 | -                        |

**Rating Rationale**

Acuite has upgraded its long term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) and its short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.30.00 crore bank facilities of Seutic Labs Private Limited (SLPL). The outlook is '**Stable**'.

**Rationale for Upgrade**

The rating is upgraded on account of established and long track record of the company in the pharmaceutical industry. Furthermore, the promoters of the company have experience of more than two decades in the aforementioned industry which helped the company to established long standing relations with reputed players from the industry such as Glenmark Life Sciences, Honour Labs Limited among others. The rating also factors in the steady business risk profile of the company with revenues of Rs.120.75 Cr and operating profit of Rs.8.31 Cr. during FY2023 (Provisional).

However, the rating is constrained on account of below average financial risk profile of the company and stretched liquidity position of the company led by working capital intensive nature of operations.

**About the Company**

Seutic Labs Private Limited was incorporated as a private limited company in 2016 and promoted by Mr. Valivarthi Siva Vara Prasad (holds 60% stake) and his wife Padma Valivarthi (holds 40% stake). The company is engaged in the manufacture bulk drug intermediates. The same have applications in segments of cardiovascular and antibiotics. SLPL has its manufacturing facility at KIADB Industrial Area, Humnabad, Bidar, Karnataka with an installed capacity of 50 Metric Tons Per annum.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of SLPL to arrive at this rating. Earlier, the team has taken consolidated approach by consolidating its group company i.e. Seutic Pharma Private Limited. However, the team has not received any information about the group company from the management.

**Key Rating Drivers**

## **Strengths**

### **Established operations with reputed clientele**

The company was established in 2016 has been engaged in manufacturing and marketing APIs and advanced intermediates. SLPL is a supplier to various pharmaceutical companies in

India and through its manufacturing facility in Humnabad (Karnataka). The company's customer base comprises many reputed players in the pharmaceutical industry, including Glenmark Pharmaceuticals. The promoters' experience of over a decade in the bulk drug manufacturing business have helped the company to established healthy relationships with its customer and is expected to continue receives benefits from the promoters over the medium term as well.

Furthermore, the revenue from operations of the company stood at Rs.120.75 Cr. in FY2023 (Prov.) as compared to Rs.137.41 Cr. in FY2022 and Rs.69.18 Cr. in FY2021. The increase in revenue during FY2022 was majorly on account of higher demand pharma products due to covid-19 pandemic. However, the revenues moderated during FY2023 on account of moderation in demand. The profitability of the company improved as marked by increase in operating profit margin to 6.88 percent in FY2023 (Prov.) as compared to 3.90 percent in FY2022 and 8.78 percent in FY2021. The company reported profit after tax of Rs.3.92 Cr. in FY2023(Prov.) compared to Rs.0.62 Cr. in FY2022 and Rs.1.41 Cr. in FY2021.

Acuité believes that the established market position and experience promoters of the company will continue to support the business risk profile of the company over the medium term.

## **Weaknesses**

### **Below average financial risk profile**

The financial risk profile of the company is below average marked by low net worth, high gearing and moderate debt protection metrics. The net worth of the company stood improved yet remained low at Rs.14.85 Cr as on FY2023(Provisional) as compared to Rs.9.04 Cr. as on FY2022. The gearing (debt-equity) stood high at 2.43 times as on FY2023 (Provisional) as against 2.87 times as on FY2022. The total debt of Rs.36.09 Cr as on FY2023(Provisional) consists of short-term bank borrowings of Rs.25.81 Cr and unsecured loans from directors of Rs.6.00 Cr. and long-term bank borrowings of Rs.4.28 Cr over the same period. The interest coverage ratio and DSCR stood moderate at 2.62 times and 1.41 times respectively for FY2023(Provisional) as against 1.74 times and 0.79 times respectively for FY2022. Furthermore, the debt to EBITDA of the company remained high at 4.34 times for FY2023 (Provisional).

Acuité believes that the financial risk profile of SLPL is however expected to remain moderate over the medium term.

### **Working Capital Intensive nature of operations**

The operations of the company are working capital intensive in nature marked by high Gross Current Assets (GCA) of 189 days for FY2023 (Provisional) as compared to 155 days for FY2022. The high GCA days is majorly on account of high inventory holding period of 136 days compared for FY2023 (Provisional) compared to 96 days for FY2022. Furthermore, the debtor period stood at 53 days for FY2023 (Provisional) as against 55 days for FY2022. On the other hand, the creditor days stood at 43 days for FY2023 (Provisional) compared to 108 days for FY2022.

### **Regulatory Risk**

Pharma Industry is highly competitive and regulated in nature as government intervention is very high. Moreover, the manufacturing facilities of company have to be regularly monitored and approved by various regulatory authorities across the globe. Hence any prohibitions or restriction imposed by regulatory authorities on the manufacturing facilities in future can significantly affect operation of the company.

## **Rating Sensitivities**

- Improvement in the scale of operations.
- Further elongation in working capital cycle

### **All Covenants**

None

### **Liquidity Position**

## **Stretched**

The liquidity position of the company is stretched marked by full utilisation of its working capital limits owing to working capital intensive nature of operations. The average working capital utilisation of its limits remained at ~102% in last seven months ended May 2023. However, the company reported net cash accruals of Rs.5.13 Cr in FY2023 (Provisional) as against matured debt obligation of Rs.2.70 Cr over the same period. The current ratio stood at 1.07 times in as on March 31, 2023 (Provisional) and the cash and bank balances stood at 0.01 during the same period.

Acuité believes that the liquidity position of the company will continue to remain stretched on account of full utilisation of its working capital limits led by working capital intensive nature of operations over the medium term.

## **Outlook: Stable**

Acuité believes that the society will maintain a 'Stable' outlook over the medium term on account of the established track record of the society and experienced professionals as trustees. The outlook may be revised to 'Positive' if the society achieves substantial improvement in its gearing. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability leading to deterioration in liquidity.

## **Other Factors affecting Rating**

None

## Key Financials

| Particulars                   | Unit    | FY 23 (Provisional) | FY 22 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income              | Rs. Cr. | 120.75              | 137.41         |
| PAT                           | Rs. Cr. | 3.92                | 0.62           |
| PAT Margin                    | (%)     | 3.24                | 0.45           |
| Total Debt/Tangible Net Worth | Times   | 2.43                | 2.87           |
| PBDIT/Interest                | Times   | 2.62                | 1.74           |

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

Acuite has taken consolidated approach by consolidating its group company i.e. Seutic Pharma Private Limited. However, acuite has not received any information about the group company from the management.

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

| Date        | Name of Instruments/Facilities | Term       | Amount (Rs. Cr) | Rating/Outlook                                      |
|-------------|--------------------------------|------------|-----------------|---|
| 24 Jul 2023 | Cash Credit                    | Long Term  | 13.00           | ACUITE B+ ( Issuer not co-operating*)               |
|             | Bills Discounting              | Short Term | 12.00           | ACUITE A4 ( Issuer not co-operating*)               |
|             | Term Loan                      | Long Term  | 5.00            | ACUITE B+ ( Issuer not co-operating*)               |
| 25 Apr 2022 | Term Loan                      | Long Term  | 5.00            | ACUITE B+ ( Issuer not co-operating*)               |
|             | Bills Discounting              | Short Term | 12.00           | ACUITE A4 ( Issuer not co-operating*)               |
|             | Cash Credit                    | Long Term  | 13.00           | ACUITE B+ ( Issuer not co-operating*)               |
| 25 Jan 2021 | Cash Credit                    | Long Term  | 13.00           | ACUITE B+ (Downgraded and Issuer not co-operating*) |
|             | Term Loan                      | Long Term  | 5.00            | ACUITE B+ (Downgraded and Issuer not co-operating*) |
|             | Bills Discounting              | Short Term | 12.00           | ACUITE A4 (Issuer not co-operating*)                |

## Annexure - Details of instruments rated

| Lender's Name       | ISIN           | Facilities                        | Date Of Issuance | Coupon Rate    | Maturity Date  | Complexity Level | Quantum (Rs. Cr.) | Rating                         |
|---------------------|----------------|-----------------------------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------|
| Union Bank of India | Not Applicable | Cash Credit                       | Not Applicable   | Not Applicable | Not Applicable | Simple           | 22.00             | ACUITE BB-   Stable   Upgraded |
| HSBC                | Not Applicable | Cash Credit                       | Not Applicable   | Not Applicable | Not Applicable | Simple           | 4.00              | ACUITE BB-   Stable   Upgraded |
| Union Bank of India | Not Applicable | Covid Emergency Line.             | Not Applicable   | Not Applicable | Not Applicable | Simple           | 1.30              | ACUITE BB-   Stable   Upgraded |
| Union Bank of India | Not Applicable | Covid Emergency Line.             | Not Applicable   | Not Applicable | Not Applicable | Simple           | 1.90              | ACUITE BB-   Stable   Upgraded |
| Not Applicable      | Not Applicable | Proposed Short Term Bank Facility | Not Applicable   | Not Applicable | Not Applicable | Simple           | 0.02              | ACUITE A4+   Upgraded          |
| Union Bank of India | Not Applicable | Term Loan                         | Not available    | Not available  | Not available  | Simple           | 0.78              | ACUITE BB-   Stable   Upgraded |

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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